PARMAR SSC

Basics of Economy

Lecture - 1



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BASICS OF ECONOMICS



- Economics is the study of how people, businesses, and governments use allocated resources to produce, distribute, and consume goods and services.
  - It analyzes decision-making regarding what to produce, how to produce, for whom to produce, and at what price to sell.

Branches of Economics

- Economics is broadly divided into two main categories: **Macroeconomics** and **Microeconomics**.

Comparison: Macro vs. Micro

Feature	Macroeconomics	Microeconomics
Approach	Top-Down Approach.	Bottom-Up Approach
Focus	Focuses on the overall performance and behavior of the entire economy	Focuses on the actions of individuals, specific firms, or businesses
Scope	Large-scale; covers the entire economy	Small-scale; covers specific sectors or markets
Subjects	GDP, Inflation, Fiscal Policy, National Income, Unemployment, Spillover Effects	Pricing of specific products, Consumer Behavior, Supply & Demand for a firm
Analogy	Studying the entire forest (e.g., Tropical Evergreen Forest characteristics)	Studying a specific tree within the forest (e.g., the Cinchona tree and its uses)

- **Spillover Effect:** Macroeconomics considers the "**Spillover Effect,**" where an event in one part of the economy (or world) impacts others (e.g., the US Great Depression affecting other nations).

Key Historical Figures and Texts

Adam Smith (Father of Microeconomics / Modern Economics)

- **Role**: Considered the Founding Father of Modern Economics and Microeconomics.
- **Key Work**: An Inquiry into the Nature and Causes of the Wealth of Nations (commonly known as "The Wealth of Nations"), published in 1776.
- **Core Concepts:**
  - **Market Economy**: Proposed that if individuals pursue their own self-interest ("Animal Spirits"), it benefits the economy as a whole.
  - **The Invisible Hand**: A metaphor describing the unseen forces (market forces of demand and supply) that move the free market economy toward efficiency without government intervention.
  - **Laissez-Faire**: A policy of "least interference" by the government, allowing the market to operate freely.

- **Alfred Marshall:** Also considered the **Father of Microeconomics.**
- **Exam Tip:** If both **Adam Smith** and **Alfred Marshall** appear in the options, choose Adam Smith.



John Maynard Keynes (Father of Macroeconomics)

- **Role:** A British economist whose theories helped the USA emerge from the Great Depression.
- **Key Work:** The General Theory of Employment, Interest and Money, published in 1936.
- **Context:** His theories emerged in response to the Great Depression of 1929, a period of severe economic downturn, deflation, and high unemployment started by a stock market crash.
- **Core Concept:** Unlike the strict Laissez-Faire approach, Keynes argued that government intervention is necessary to manage "Animal Spirits" and revive the economy during downturns.

Economic Systems

- Economic systems are classified based on ownership, motive, and government role.

Feature	Capitalist Economy (Market)	Socialist Economy (Non-Market)	Mixed Economy
Ownership	Private Ownership	Public/State Ownership	Public + Private Ownership
Motive	Profit Maximization	Social Welfare	Both Profit & Social Welfare
Govt. Role	No role / Least interference (Laissez-Faire).	Complete involvement (Central Planning)	Limited/Regulated role.
Income Dist.	Unequal (High inequality)	Equal (theoretically)	Less Unequal
Freedom	Complete Economic Freedom	Lack of Freedom.	Limited Freedom
Examples	USA	USSR, North Korea	**India**

Note on India: Prior to 1991, India operated under the "**License Raj**" (Permit Raj), requiring government approval for business. Following the Balance of Payments (BoP) crisis, the LPG Reforms (Liberalization, Privatization, Globalization) were introduced in 1991 by **P.V. Narasimha Rao** and **Dr. Manmohan Singh** to open the economy

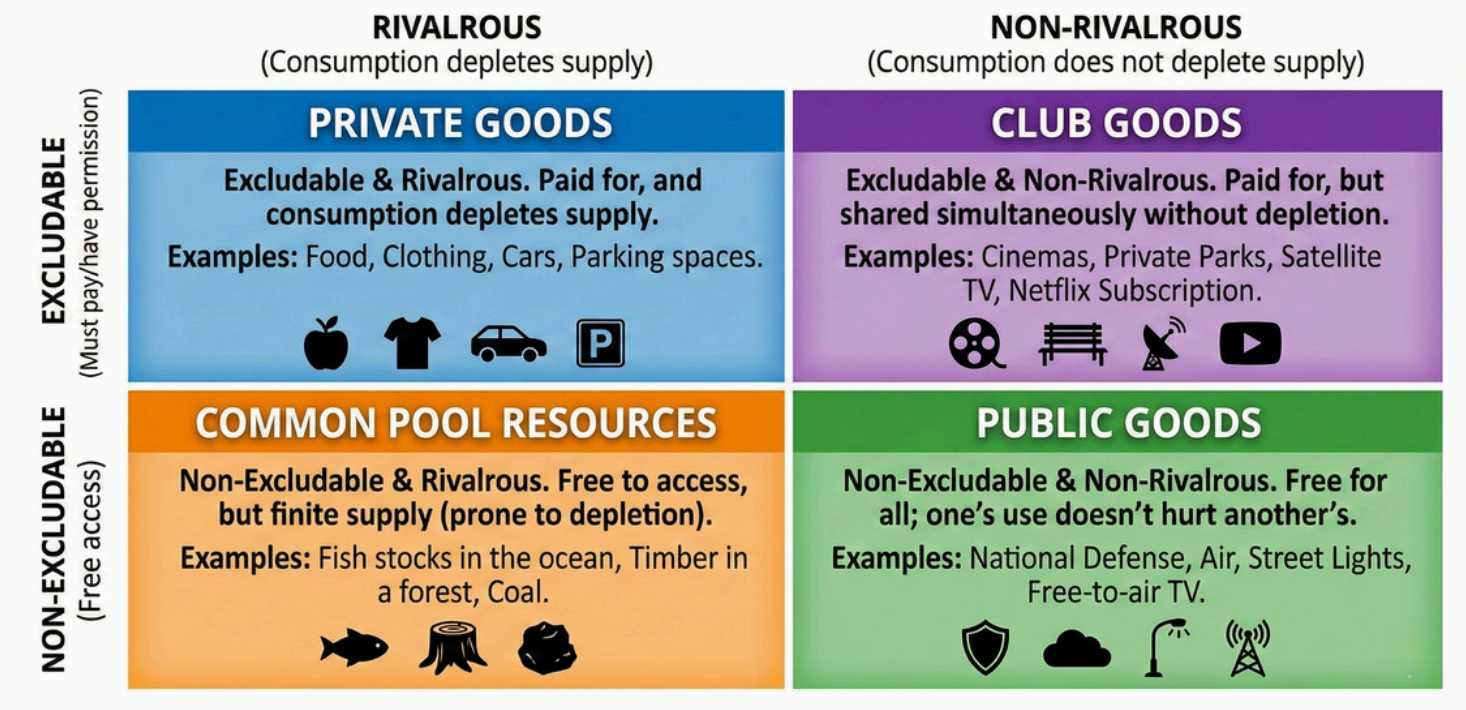
Classification of Goods

Goods are classified based on two criteria: **Excludability** and **Rivalry**.

Definitions

- **Excludability**: Is it possible to prevent someone who hasn't paid from using the good?
  - **Excludable**: You must pay to use it (e.g., buying a ticket).
  - **Non-Excludable**: You cannot prevent anyone from using it (e.g., air, free YouTube videos).
- **Rivalry**: Does one person's consumption reduce their availability for others?
  - **Rivalrous**: If I consume it, you cannot (e.g., eating an apple, buying a limited edition car).
  - **Non-Rivalrous**: My consumption does not affect yours (e.g., watching a sunset, breathing air).

The Four Types of Goods



- **Opportunity Cost:** The value of the next best alternative given up. Natural resources like sunlight often have zero opportunity cost for the consumer.
- **Free Rider Problem:** A challenge with Public Goods where people benefit without paying (e.g., using a street light without paying taxes).

Sectors of the Economy

- The economy is divided into sectors based on the nature of activities.

1. Primary Sector (Red Collar Jobs)

- **Definition**: Activities directly dependent on the environment or nature.
- **Examples**: Agriculture, fishing, hunting, forestry, mining.
- **Status**: Known as the "**Backbone of the Indian Economy**" due to high employment.

2. Secondary Sector (Blue Collar Jobs)

- **Definition**: Transforms raw materials into valuable products (Manufacturing/Processing).
- **Examples**: Manufacturing, construction, electricity production, processing food.
- **Status**: Considered the backbone of industrialized nations (e.g., China).
- **Status in India**: This sector is not yet properly developed in India. Unlike the standard path of development, India's economy effectively jumped directly to the **tertiary (service) sector**, skipping the phase of strong industrialization.

3. Tertiary Sector (White Collar Jobs)

Something that cannot be touched

- **Definition:** The Service Sector; produces intangible services rather than goods.
- **Examples:** Teaching, transportation, banking, hospitality, retail.

Sub-divisions of the Tertiary Sector

- The Tertiary sector is further sub-divided into two specialized sectors based on the level of knowledge and expertise required.

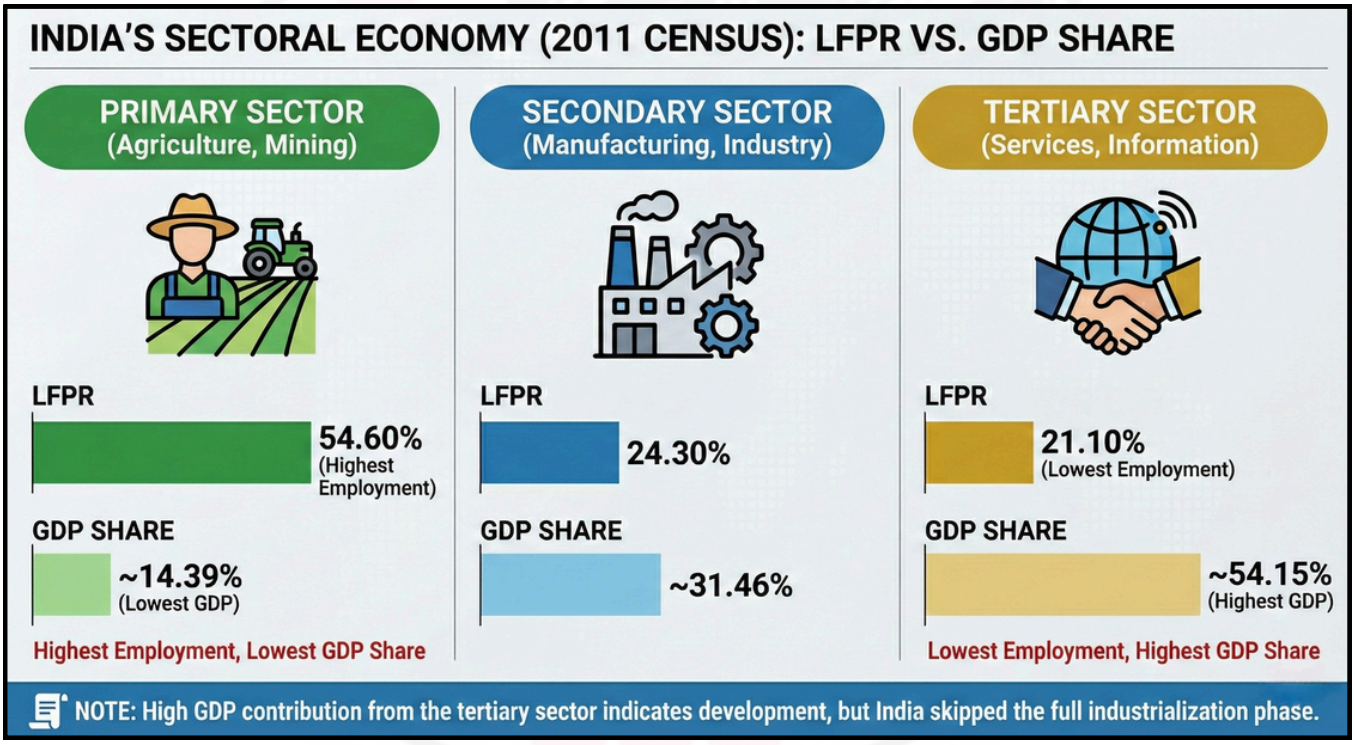
A. Quaternary Sector

- **Definition:** Knowledge-based activities and intellectual services.
- **Examples:** IT professionals, Research & Development, Consultants.

B. Quinary Sector (Gold Collar Jobs)

- **Definition:** Highest level of decision-making and policy creation.
- **Examples:** Top government officials, CEOs, Research Scientists, Policymakers.

Sector Statistics (India - 2011 Census)



- **LFPR:** Labour Force Participation Rate
- Percentage of women engaged in the Primary Sector: 62.8%

Other Economic Classifications

Organized vs. Unorganized Sector

- **Organized Sector:** Registered with the government, follows labor laws, provides job security, fixed hours, PF/Pension benefits (e.g., Government jobs, MNCs).
- **Unorganized Sector:** Not registered, irregular wages, no job security, no benefits (e.g., small shop helpers). In India, more than 90% of workers are in the unorganized sector.

Initiative: The e-Shram portal was launched to register unorganized workers.

Real vs. Financial Sector

- **Real Sector:** Involves the actual production of goods and services using raw materials, land, and labor.
- **Financial Sector:** Deals with financial assets like mutual funds, stocks, and banking services.

Aids (Auxiliaries) to Trade

- Factors essential for moving goods from production to consumption. These are support services, not the raw materials themselves.
- **Examples:** Transportation, Banking, Insurance, Warehousing, Advertising.

Normative vs. Positive Economics

- **Positive Economics:** Based on facts, actual data, and "what is." It is scientifically verifiable (e.g., "The unemployment rate is 20%").
- **Normative Economics:** Based on opinions, value judgments, and "what ought to be." It is idealistic (e.g., "Unemployment should be 5%").

Parallel Economy

- Refers to the functioning of an unsanctioned sector, often driven by black money (**unaccounted income or income from illegal activities like trafficking**). It makes government policies ineffective because this money is not taxed or regulated.



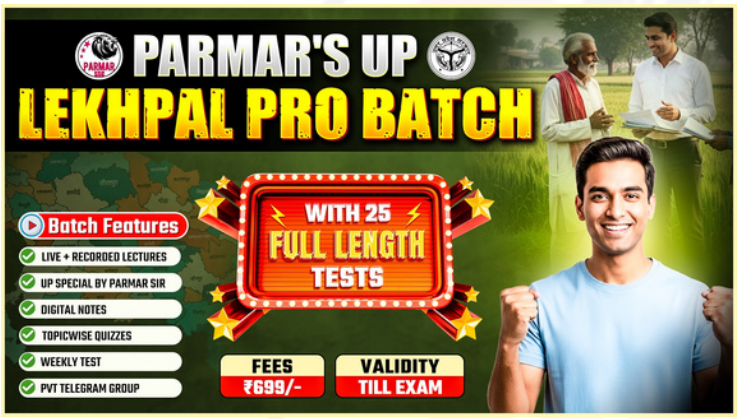


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